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December 14, 2010

**AGENDA ITEM 6a**

**TO: MEMBERS OF THE FINANCE COMMITTEE**

- I. SUBJECT:** Fiscal Year (FY) 2010-11 Mid-Year Budget Revisions  
(Second Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATIONS:**
- (1) The Committee accepts a one-time decrease in FY 2010-11 to the Administrative Budget of \$15,465,000 and an increase of 13.0 additional positions, funded internally, for a total Administrative Budget of \$315,731,000 and 2,330 positions, and recommends the Board of Administration (Board) approve this revised budget as a second reading.
  - (2) The Committee accepts the proposed CalPERS FY 2010-11 Mid-Year increase of \$15,465,000 to the Enterprise Projects Budget for a total budget of \$36,681,000 and recommends the Board approve the budget as a second reading.
  - (3) The Committee accepts the proposed CalPERS FY 2010-11 cost allocation adjustments to the Public Employees' Retirement Fund, and other funds, and recommends the Board approve the cost allocation as a second reading.
  - (4) The Committee recommends the Board approve the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office and the State and Consumer Services Agency.

#### **IV. ANALYSIS:**

##### **SECOND READING**

No changes have been made to the proposed FY 2010-11 Mid-Year budget since the first reading to the Finance Committee on November 16, 2010.

The purpose of the Mid-Year Budget Process is to address critical, unforeseen, and emergency resources not included in the FY 2010-11 Business Planning and Budget Processes. Considering the State's challenging fiscal environment and resource demands for current organizational initiatives, Executive Staff considered only mid-year resource requests that met specific mid-year criteria. The majority of divisions continue to face the challenge of meeting workload priorities within existing budgets. A few of the divisions prepared mid-year resource requests demonstrating new needs, critical to the Enterprise, that were unforeseen during the FY 2010-11 Annual Budget Process. Staff reviewed these requests and was able to redirect resources from within the Enterprise to meet these needs.

##### **ADMINISTRATIVE BUDGET**

Although there were mid-year resource requests, there is no proposed increase to the Administrative Budget for the current year. Approximately \$13,121,000 of existing resources from within the organization will be redirected to address mid-year needs.

Part of the redirection will be used to fund 13.0 additional positions that were identified through the Mid-Year Formal Budget Requests Process as being critical to Enterprise needs. This would increase CalPERS current positions from 2,317 to 2,330. Attachment 1 details all positions by Branch. CalPERS staff recommends establishing these 13.0 positions as shown in Table 1:

**TABLE 1: Mid-Year Positions Recommended**

Division	Position	Description
Employer Services Division	3.0	Positions to augment staffing in the Compensation Review Unit within the division. This request is necessary in order to address an increase in ongoing workload within the Section.
Office of Enterprise Compliance	3.0	Positions required for the enhanced Form 700 Review, as directed by the Board, Chief Executive Officer, and General Counsel.
Legal Office	1.0	Management position required for critical and sensitive matters administered by the General Counsel.

<b>TABLE 1: Mid-Year Positions Recommended</b> (continued)		
Long-Term Care Program	2.0	Positions needed to decrease the reliance on external consultants, provide internal perspective and validation of consultant work, and mitigate the risk of only having vendors develop these work products.
Investment Office	1.0	Position essential to establish a sustainable, flexible, and responsive information technology capability within the Investment Office and generating substantial savings by minimizing reliance on external vendors. Implements the 2010 Investment Office Roadmap strategies.
Investment Office	1.0	Position for the Internal Control and Investment Compliance Program, essential to improving and increasing Investment Office-wide compliance and transparency as related to investment industry and administrative policies. Implements the 2010 Investment Office Roadmap strategies.
Investment Office	1.0	Position required addressing the Organization System and Controls, and Cost Effectiveness initiatives essential to determining optimal amount and mix of spending to manage and maximize portfolio. Implements the 2010 Investment Office Roadmap strategies.
Investment Office	1.0	Position to provide expertise and recommendations to the Board and the Investment Office on new or upgraded risk tools and systems, research risk strategies, and implement and integrate risk considerations into the Investment Office strategic decisions. Implements the 2010 Investment Office Roadmap strategies.
<b>TOTAL</b>	<b>13.0</b>	

In addition to the redirection, CalPERS is recommending a one-time reduction of \$15,465,000 to the Administrative Budget and a transfer of this budget authority to the Enterprise Projects Budget in order to fund the Pension System Resumption (PSR) Recovery Plan. The PSR Recovery Plan is discussed further in the Enterprise Project Budget section. The \$15,465,000 reduction in the Administrative Budget and the \$15,465,000 increase to the Enterprise Project Budget will result in a net zero impact to the FY 2010-11 budget.

### **Cost Allocation Update**

CalPERS staff uses a cost allocation methodology to equitably distribute administrative program costs across CalPERS funds. The methodology classifies CalPERS divisions as program or administrative. Program division expenses are charged directly to funds they support, while administrative division expenses are allocated to each fund based on the level of support they provide to program divisions.

The Fiscal Services Division surveys administrative divisions on an annual basis to determine their level of support over the prior fiscal year. The workload results are then applied to the current year's budget to determine each fund's share of administrative costs. The cost allocation model was completed in October with current year line item budget information and mid-year budget adjustments entered for each division. As a result of those adjustments, approval of the revised fund appropriation levels is recommended. Attachment 2 reflects those revisions.

### **ENTERPRISE PROJECTS BUDGET**

#### **Current Budget**

The current budget for Enterprise Projects is \$21,216,000, and is appropriated to the PSR and the Enterprise Transition Management (ETM) projects.

#### **Proposed Budget Increase**

During the FY 2010-11 Annual Budget Process, the PSR and ETM Project Budgets were approved for \$21,216,000. The Annual Budget assumed a September 20, 2010, initial launch date based on the PSR Go Forward Strategy. Subsequently, the PSR Leadership Team (CalPERS and Accenture) discussed the need to develop a plan for ensuring adequate testing of the PSR system prior to implementation. Those discussions concluded successfully and both parties reached agreements. These agreements resulted in a one-year extension (PSR Recovery Plan) to the existing schedule with an initial launch date of September 19, 2011. The additional time in the schedule covers the Application Refactoring Phase, Recovery Phase, and End-to-End Testing. The Board was advised in May 2010 of the PSR Recovery Plan.

As a result of the new initial launch date and the PSR Recovery Plan, the PSR Project is requesting \$15,465,000 for PSR, ETM, and the Financial Systems Integration Project bringing the total Budget to \$36,681,000. To fund the \$15,465,000 increase in the Enterprise Project Budget, the Administrative Budget will be reduced by \$15,465,000, resulting in a net zero impact to the FY 2010-11 budget.

Table 2 below provides a summary of the total Enterprise Projects Budget for FY 2010-11.

**Table 2**

<b>Proposed FY 2010-11 Enterprise Projects Budget</b>	<b>Dollars</b>
Pension System Resumption	\$30,552,000
Enterprise Transition Management	3,894,000
Financial System Integration Project	2,235,000
<b>Total</b>	<b>\$36,681,000</b>

### **CalPERS HEADQUARTERS BUILDING ACCOUNT BUDGET**

There are no proposed changes to the CalPERS Building Account Budget for FY 2010-11. The total CalPERS Building Account remains at \$32,917,000.

Table 3 below provides a summary of the current budget.

**Table 3**

<b>CHBA Categories</b>	<b>Dollars</b>
Operating Expenses	\$23,118,000
Non-Operating Expenses	4,502,000
Facilities Support	5,297,000
<b>Total</b>	<b>\$32,917,000</b>

### **V. STRATEGIC PLAN:**

This item is not a specific product of the Strategic Plan. It is brought to the Finance Committee and the Board to satisfy the following requirements: (1) obtain approval of FY 2010-11 Mid-Year budget revisions; and (2) fulfill Budget Act control language requirements.

### **VI. RESULTS/COSTS:**

No changes have been made to the proposed FY 2010-11 Mid-Year budget since the first reading to the Finance Committee on November 16, 2010. There is a total reduction to the CalPERS FY 2010-11 Administrative Budget of \$15,465,000 and an increase of 13.0 positions, reducing the current budget of \$331,196,000 to \$315,731,000 and increasing the current total positions from 2,317 to 2,330. The Enterprise Projects Budget will increase by \$15,465,000 from \$21,216,000 to \$36,681,000. The corresponding increase in the Enterprise Projects Budget and decrease in the Administrative Budget will result in no increase to the overall FY 2010-11 budget. The CalPERS Building Account budget of \$32,917,000 will remain unchanged. Recommendations contained in this agenda item will take effect upon the approval of the second reading by the Board at the December 15, 2010, meeting.

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Fiscal Services Division

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DAVE CORNEJO, Interim Chief  
Fiscal Services Division

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RUSSELL G. FONG  
Interim Assistant Executive Officer  
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Attachments